

Message Text

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ACTION EB-07

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

1. ECUADOR CONTINUES TO OFFER A MODERATELY ATTRACTIVE CLIMATE FOR FOREIGN INVESTMENT, EXCEPT IN CERTAIN SECTORS RESERVED FOR INVESTMENT BY PUBLIC-SECTOR OR MIXED ENTITIES. THESE EXCEPTIONS ARE PRINCIPALLY: PUBLIC UTILITIES; THE MAJOR NATURAL RESOURCES (HYDROCARBONS, MINING, FISHING); AND SOME BASIC INDUSTRIES (E.G., STEEL, CEMENT, PETROCHEMICALS).

2. THE GOVERNMENT SEEMS TO BE LOOKING INCREASINGLY TO PRIVATE INVESTMENT TO HELP OVERCOME RECENT ECONOMIC REVERSES BROUGHT ON BY AN INABILITY TO EXPORT PROGRAMMED QUANTITIES OF PETROLEUM AT PRICES NOT SUSTAINABLE BY THE MARKET.

3. THE MAJOR REVERSE HAS BEEN A DEFICIT SO FAR THIS YEAR IN ECUADOR'S BALANCE OF INTERNATIONAL PAYMENTS. OIL-EXPORT EARNINGS HAVE PLUMMETED FROM LAST YEAR'S LEVEL WHILE, IRONICALLY, THERE HAS BEEN LITTLE LET-UP IN THE IMPORT BOOM THAT WAS TOUCHED OFF BY THE START OF OIL EXPORTS A
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FEW YEARS AGO. THE DROP IN OIL EXPORTS HAS LARGELY BEEN

DUE TO GOVERNMENTAL POLICIES WHICH IN EFFECT PRICED ECUADOREAN OIL OUT OF MAJOR MARKETS. THE GOVERNMENT RECENTLY REDUCED ITS LARGE "TAKE" OF OIL EXPORT EARNINGS SO AS TO LOWER THE EXPORT PRICE, AND COMMITTED ITSELF TO IMPLEMENT OTHER STEPS TO ENCOURAGE PRIVATE INVESTMENT IN FACILITIES FOR INCREASING THE OUTFLOW OF ECUADOREAN OIL, AND PRIVATE INVESTMENT IN FURTHER OIL EXPLORATION.

4. SIMILARLY, THE GOVERNMENT IS INDICATING IT INTENDS TO LIBERALIZE ITS POLICIES TOWARD PRIVATE INVESTMENT SO AS TO OVERCOME ANOTHER ADVERSE ECONOMIC TREND--THE VERY SLOW PACE OF DEVELOPMENT OF INDUSTRIES UNDER THE ANDEAN PACT'S SECTORAL ASSIGNMENTS TO ECUADOR. FOLLOWING A WAVE OF PROTESTS FROM BUSINESS GROUPS THROUGHOUT THE COUNTRY AGAINST THE RESTRICTIVE IMPACT OF THE ANDEAN PACT'S DECISION 24, THE GOVERNMENT APPOINTED A NEW MINISTER OF INDUSTRY, COMMERCE AND INTEGRATION WHO DECLARED UPON TAKING OFFICE THAT ECUADOR'S APPLICATION OF DECISION 24 MUST BE "RATIONALIZED". THE NEW MINISTER'S FIRST MAJOR POLICY STATEMENT (AUGUST 25) DEEMED IT A KEY OBJECTIVE "TO INVITE AND ACCEPT FOREIGN CAPITAL IN ACTIVITIES THAT ARE NOT RESTRICTED BY INTERNATIONAL AGREEMENTS OR BY (ECUADOR'S) INTERNATIONAL INTERESTS, GIVING (TO INVESTORS) ALL FACILITIES SO AS TO SPEED UP A FAVORABLE IMPACT ON THE COUNTRY'S ECONOMY".

5. IF THE PROSPECTIVE LIBERALIZATION MEASURES PROVE SUBSTANTIAL ENOUGH TO RESUME A LUCRATIVE FLOW OF OIL EXPORTS AND CLEAR ENOUGH TO END THE UNCERTAINTIES ABOUT ECUADOR'S APPLICATION OF DECISION 24, THE LONG-RANGE OUTLOOK FOR PRIVATE INVESTMENT IN ECUADOR WILL CHANGE FROM CLOUDY TO BRIGHT INDEED. BUT IN THE SHORT TERM THERE MAY BE SOME MODERATELY ROUGH WEATHER FOR THE PRIVATE SECTOR HERE, AS THE CURRENT BALANCE-OF-PAYMENTS DEFICIT IS EXERTING PRESSURE ON THE GOVERNMENT TO RESTRAIN THE FLOWS OF CREDITS AND IMPORTS. A FEW MODEST RESTRAINTS WERE EFFECTED IN MAY 1975, AND THEY SEEM TO HAVE BEEN CASING SOME DIFFICULTIES FOR SOME FIRMS. THE GOVERNMENT HAS JUST (AUGUST 1975) IMPOSED A STRONGER RESTRAINT ON IMPORTS--TARIFF SURCHARGES ON A WIDE VARIETY OF IMPORTS, INCLUDING MOST CAPITAL GOODS AND RAW MATERIALS; THE SURCHARGES SEEM WEIGHTY ENOUGH TO HAVE A SIGNIFICANT RESTRAIN-

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ING IMPACT ON IMPORTS, BUT ARE EXPECTED TO REMAIN IN FORCE ONLY UNTIL THE ANTICIPATED SURGE IN ECUADOR'S OIL-EXPORT EARNINGS ONCE AGAIN PUTS THE BALANCE-OF-PAYMENTS WELL INTO THE BLACK.

6. AT THE END OF 1974, U.S. DIRECT FOREIGN INVESTMENT IN ECUADOR WAS ABOUT \$400 MILLION, OF WHICH TEXACO-GULF'S PROJECT (INCLUDING THE PIPELINE) ACCOUNTS FOR \$334 MILLION.

THE REMAINDER OF U.S. INVESTMENT IS PRIMARILY IN MANUFACTURING (EMBASSY ESTIMATE). ECUADOREAN GOVERNMENT FIGURES INDICATE THAT NEW DIRECT FOREIGN INVESTMENT REGISTERED IN 1974 FROM ALL SOURCES WAS \$17 MILLION, EXCLUDING THE PETROLEUM SECTOR. THIS REPRESENTED AN INCREASE OF 21.4 PERCENT OVER FOREIGN INVESTMENT REGISTERED IN 1973 (\$14 MILLION).
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